



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

July 11, 2013

To: Audit Committee

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", written over a horizontal line.

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

AMENDED BUDGET POLICIES AND PRIORITIES (POLICY NO. 4.030)

On June 24, 2013, the Board of Supervisors directed our office to amend Policy No. 4.030 on Budget Policies and Priorities (Attachment I).

We have revised Paragraph 9 of the policy, and submit it for your consideration. This amended policy statement serves to strengthen the County's budget policy as it relates to the set aside of excess fund balance at year-end into the Rainy Day Fund, to protect essential County programs against unforeseen emergencies and economic downturns, and/or the Other Post Employment Benefits trust fund, to help reduce the County's largest unfunded liability.

If you have any questions regarding this matter, please contact me or you may contact Matthew McGloin of the Chief Executive Office at (213) 974-1694.

WTF:SK
MM:AB:alc

Attachments

c: Executive Officer, Board of Supervisors

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Los Angeles County BOARD OF SUPERVISORS POLICY MANUAL

Policy #:	Title:	Effective Date:
4.030	Budget Policies and Priorities	7/1/13

PURPOSE

Fosters fiscal prudence and long-term strategic fiscal planning by establishing policies and priorities that will assist departments in preparing their budget requests, provides direction to the Chief Executive Officer in developing the Proposed Budget and provides a context to help guide Board decision-making consistent with deliberations on the Final Budget.

REFERENCE

December 17, 1996 Board Order, Synopsis 67

September 21, 2004, Board Order 13

January 27, 2009, Board Order 15

February 3, 1998 Board Motion

June 20, 2011, Board Motion

May 15, 2012, Board Order 20

June 24, 2013, Board Motion

POLICY

The initial policy has been amended and augmented with additional policies which are consistent with the general budget policy direction indicated by recent Board actions and discussions.

Budget Policies:

1. In developing recommendations that may require operational reductions, departments should ensure that administrative and non-service areas have been reduced to the maximum extent possible. In general, any service reduction, which may be necessary, should include

commensurate reductions in administrative functions, such as management/supervisory, payroll, or other support staff. Reductions should include an overall review of management structure with the objective of reducing layers of management. Further, reductions should focus on positions most recently added and/or programs most recently augmented.

2. Focus reductions in programs which are discretionary or where the service level is discretionary.
3. Ongoing costs should be funded with ongoing revenues. Aligning continuing expenditures with continuing revenues, on a level that can be reasonably sustained, will foster stability, predictability, and long-range planning, while avoiding volatility in service levels. Before expanding services, use new, ongoing revenues to meet current obligations and reduce reliance on one-time funding. New programs should not be proposed without identification of (a) specific and continuous funding source(s).
4. The budget should be based on realistic revenue estimates. Future costs should only be budgeted if there is a high probability that the funds will be available to support them. Reliance on new revenues from anticipated growth or revenues contingent upon passage of legislation, unless reasonably assured, can place the budget at risk and raise false expectations.
5. Mandated programs should normally be implemented at the level of funding provided by the State or federal government; continuing to provide supplemental local funding for unfunded or under-funded State/federal mandates allows other levels of government to escape responsibility for providing adequate funding for mandates they place on the County. Similarly, to the extent that public health and safety are not jeopardized, County overmatches should be reduced or eliminated.
6. All new requests for program funding should be accompanied with clear and concise statements of the program's mission, objectives, and intended measurable outcomes; managers will be evaluated, in part, on achievement of outcomes.

7. Unless there is a clear compelling reason for a particular service to be provided by County employees, the choice of a service provider should be based on which entity can provide the service most effectively at lowest cost, whether it be the County, a non-profit organization, a private business, or another jurisdiction.
8. The feasibility and legality of imposing fees or other charges should be evaluated for any service provided by the County where full cost recovery is not currently achieved, particularly services which benefit other jurisdictions.
9. A Reserve for Rainy Day Funds should be maintained to protect essential County programs against unforeseen emergencies and economic downturns. The Reserve cap should be 10% of on-going locally generated revenue. Transfers, at a minimum of three percent (3%) ten percent (10%) of excess fund balance at year-end book closing, should be set aside for -should be made into the Reserve Rainy Day Fund and/or the Other Post Employment Benefits (OPEB) trust fund each year, if feasible, until the 10% cap is met.

When the reserve cap of 10% is exceededreached, the entire excess amount may should be deposited into the OPEB trust fund to be made available for specified one-time purposes such as capital projects, unfunded retiree health obligations, efficiency measures and information technology initiatives. The objective is to avoid on-going commitments with funding that may not be sustainable in an economic downturn.

10. Budget decisions should be considered within the context of revenue and expenses projected beyond a single fiscal year. A long-range forecast should be developed and maintained to reflect continuing programs, anticipated new initiatives, revenue changes, cost increases, potential problem issues and other factors that may impact strategy for maintaining a balanced budget over several years.
11. The status of expenses and revenue for each department should be closely and thoroughly monitored, with reports provided to the Board on a regular basis. Department Heads should be responsible for tracking deviations from planned revenue receipts and expenses, and for recommending adjustments as needed to end fiscal year in balance.

12. The County should phase in funding of unfunded liabilities. The County currently budgets a number of unfunded incurred liabilities, such as Workers' Compensation, on a pay-as-you-go basis, instead of funding reserves to cover future payments. Failure to address unfunded liabilities is a form of deficit spending, which if left unchecked, will eventually consume larger and larger portions of the annual budget. Accepted actuarial and accounting practices require that reserves be established so that future payouts of today's costs do not impact future operating budgets.
13. The County provides Health Care and Dependent Care Spending Account benefits that help participating employees save money by using pre-tax dollars to pay for certain eligible expenses. Under applicable federal tax rules, plan participants must forfeit any money that is not spent on unreimbursed, eligible expenses during the plan year. Forfeited spending account funds should be used as follows: a) Forfeited employees' Dependent Care Spending Account monies shall not revert to the General Fund at the end of the year. The monies should be equally divided amongst County-operated child care centers for facility and/or program enhancements. The County's child care coordinator should work with the operator and advisory committee of each site to develop a plan to utilize the funds; and b) Forfeited employee Health Care Spending Account monies, as determined by the Department of Human Resources, shall be transferred to the Reserve for Rainy Day Funds each fiscal year on an annual basis.
14. The Los Angeles County Employee Retirement Association (LACERA) administers the County's Retiree Healthcare Program on behalf of the County and maintains a prudent premium reserve to offset expected premium increases among other things. Should the amount of premium reserve exceed the prudent reserve level established by LACERA, the County will direct LACERA to transfer the County's share of the excess premium reserves to the Other Post Employee Benefits (OPEB) trust fund. The OPEB trust fund serves as the vehicle to pre-fund retiree health care benefits and reduce the County's financial burden. The County shall review the premium reserve funding level on an annual basis and communicate their request to LACERA accordingly.

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Budget Priorities:

1. Public Safety and Justice (includes all law enforcement, justice, and public related operations)
2. Public Health and Welfare/Prevention (includes all health, welfare, and social service operations)
3. Direct Public Services (includes all recreational, cultural, consumer protection, and many regulatory operations)
4. Internal and Support Services (includes all central staff and support operations)

RESPONSIBLE DEPARTMENT

Chief Executive Office

DATE ISSUED/SUNSET DATE

Issue Date: December 17, 1996
Re-issue Date: September 21, 2004
Review Date: December 18, 2008
Re-issue Date: January 27, 2009
Review Date: May 21, 2009
Review Date: October 25, 2012
Re-issue Date: July 1, 2013

Sunset Review Date: December 17, 2003
Sunset Review Date: December 17, 2008
Sunset Review Date: December 17, 2012
Sunset Review Date: December 17, 2012
Sunset Review Date: December 17, 2012
Sunset Review Date: December 17, 2016
Sunset Review Date: July 1, 2017